THEEWATERSKLOOF MUNICIPALITY

ASSET MANAGEMENT POLICY

Approved by Council :

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1. OBJECTIVE

1.1. To ensure the effective and efficient control of the municipality's assets through:
- 1.1.1. Proper recording of assets from authorization to acquisition and to subsequent disposal, and
- 1.1.2. Providing for safeguarding procedures, and
- 1.1.3. Setting proper guidelines as to authorized utilisation, and
- 1.1.4. Prescribing for proper maintenance.

1.2. To assist officials in understanding their legal and managerial responsibilities with regard to assets.

2. BACKGROUND

2.1. The proper utilization and management of assets is one of the prime mechanisms by which a municipality can fulfil its constitutional objectives for:

- 2.1.1. Delivery of sustainable services;
- 2.1.2. Promotion of Social and economic development;
- 2.1.3. Promoting a safe and healthy environment and,
- 2.1.4. Providing for the basic needs to the community.

2.2. The municipality has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its assets over the useful life thereof.

2.3. The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of assets.

2.4. Stewardship has three components being the:

- 2.4.1. Management, utilization and control by the Municipal Officials.
- 2.4.2. Financial administration by the Chief Financial Officer, and
- 2.4.3. Physical administration by the Asset and Property Managers

2.5. Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a local government.

2.6. Accounting standards are set to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these accounting standards include:

2.6.1. The compilation of asset registers recording all assets controlled by the municipality.

2.6.2. Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.

2.6.3. The standards to which these financial records must be maintained.

3. DEFINITIONS

3.1. **"Accounting Standards Board"** was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

3.2. **"Amortisation"** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

3.3. **"Assets"** are resources controlled by the municipality as the result of past events and from which future economic benefits or future service potential are expected to flow to the municipality and for the purpose of this policy refers to property, plant and equipment and includes Investment Properties and PPE property.

3.4. **"Asset categories"** are the six main asset categories defined as follows (inclusive of movable and immovable assets):

3.4.1. **Infrastructure assets** – are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewage purification and trunk mains, transport terminals and car parks.

3.4.2. **Community assets** – are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

3.4.3. **Heritage assets** – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

3.4.4. **Investment properties** – are defined as properties that are acquired for economic and capital gains. Examples are office parks and under-developed land acquired for the purpose of resale in future years.

3.4.5. **Intangible assets** – are identifiable assets without physical substance.

3.4.6. **Other assets** – are defined as assets utilized in normal operations. Examples are plant, equipment, motor vehicles and furniture and fittings.

3.5. **"Asset register"** is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy

3.6. **"Basic Municipal Services"** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

3.7. **"Capitalisation"** is the recognition of expenditure as an Asset in the financial records and in the Asset Register.

3.8. **"Carrying amount"** is the amount at which an asset is included in the financial statements after deducting any accumulated depreciation and accumulated impairment thereon from the recorded value thereof.

3.9. **"Control items"** are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safeguarding.

3.10. **"Cost"** is the amount of cash or cash equivalents paid, or the fair value of the other consideration given or received to acquire an asset at the time of its acquisition or construction.

3.11. **"Cost of acquisition"** is all the costs incurred in bringing an asset item to the required condition and location for its intended use.

3.12. **"Depreciation"** is the systematic allocation of the depreciable amount of an asset over its useful life.

3.13. **"Depreciable amount"** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

3.14. **"Director"** means each section 57 appointee

3.15. "Disposal" in relation to a capital asset, includes:

3.15.1. The demolition, dismantling or destruction of the captil asset; or

~~3.12.1.~~3.15.2. Any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership.

~~3.13.~~3.16. **"Fair value"** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

3.14.3.17. **"Fixed asset register"** (FAR) is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy.

3.15.3.18. **"GRAP"** is Standards of Generally Recognised Accounting Practice

3.16.3.19. **"Impairment loss" of a cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

3.17.3.20. **"Impairment loss" of a non-cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

3.18.3.21. **"Prescribe"** means as prescribed by the Minister of Finance by regulation.

3.19.3.22. **"Property, plant and equipment" (PPE)** means tangible assets that:

3.19.1.3.22.1. Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

3.19.2.3.22.2. Are expected to have a useful life extending for more than one financial year.

3.19.3.3.22.3. In this policy, the terms asset and property will have the same meaning.

3.20.3.23. **"Recoverable amount"** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

3.21.3.24. **"Residual value"** is the net amount which the municipality~~entity~~ expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

3.22.3.25. **"Senior Management"** means officials who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79 of the MFMA.

3.23.3.26. **"Useful life"** is either:

3.23.1.3.26.1. The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality.

Or

~~3.23.2.~~3.26.2. The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.

4. STATUTORY AND REGULATORY FRAMEWORK

4.1. This policy must comply with all relevant legislative requirements including:

4.1.1. The Constitution of the Republic of South Africa, 1996

4.1.2. Municipal Structures Act, 1998

4.1.3. Municipal Systems Act, 2000

4.1.4. Division of Revenue Act (enacted annually)

4.1.5. Municipal Finance Management Act No 56 of 2003

~~4.1.5.~~4.1.6. Local Government: Municipal Asset Transfer Regulations, 2008

4.2. Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:

4.2.1. GRAP 12 – Inventories

4.2.2. GRAP 13 – Leases

4.2.3. GRAP 16 – Investment Properties;

4.2.4. GRAP 17 - Property, plant equipment;

4.2.5. GRAP 21 – Impairment of Non-cash-generating Assets

~~4.2.4.~~4.2.6. GRAP 26 – Impairment of Cash-generating Assets

~~4.2.5.~~4.2.7. GRAP 27 - Agriculture; (Replaced GRAP 101)

~~4.2.6.~~4.2.8. GRAP 31 – Intangible Assets; (Replaced GRAP 102)

~~4.2.7.~~4.2.9. GRAP 103 – Heritage Assets.

4.3. This policy does not overrule the requirement to comply with other policies such as Supply Chain Management or Budget policies.

5. RESPONSIBILITIES AND ACCOUNTABILITIES

5.1. The **Municipal Manager** is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

5.2. The Municipal Manager must take all reasonable steps to ensure that:

5.2.1. The municipality has and maintains a management, accounting and information system that records all the assets of the municipality;

5.2.2. The municipality's assets are valued in accordance with recognised standards as prescribed by statutes and/or regulations;

5.2.3. That the municipality has and maintains a system of internal control of assets, including an asset register; and

5.2.4. That Senior Management comply with this policy.

5.3. The **Chief Financial Officer** is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets is properly recorded.

5.4. The Chief Financial Officer must take all reasonable steps to ensure that:

5.4.1. Appropriate systems of financial management and internal controls are established and carried out diligently;

5.4.2. The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

5.4.3. Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are detected, prevented and investigated;

5.4.4. The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of all statutes;

5.4.5. Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;

5.4.6. The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;

5.4.7. The Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;

5.5. The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remains accountable for ensuring these activities are performed.

5.6. The Directors must take all reasonable steps to ensure that:

5.6.1. Appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;

5.6.2. The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;

5.6.3. The assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied.

5.6.4. Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are detected, prevented and investigated;

5.6.5. The asset management systems and controls can provide an accurate, reliable and up to date record of assets under their control.

5.6.6. They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.

5.6.7. The purchase of assets complies with all municipal policies and procedures.

~~5.6.7.~~5.6.8. The contribution (donation) asset communicated with the Asset Department in writing.

~~5.6.8.~~5.6.9. All moveable property, plant and equipment is duly processed and identified and inspected as being in order before it is received into their stewardship.

~~5.6.9.~~5.6.10. All moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular verification to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer.

5.6.10.5.6.11. Assets are appropriately utilized for the purpose for which the municipality acquired them.

5.6.11.5.6.12. Report any lost, stolen and damaged asset in line with the insurance SOP and policy

5.7. The Director may delegate or otherwise assign responsibility for performing these functions but will remain ultimately accountable for ensuring these activities are performed.

6. ASSET MANAGEMENT SYSTEM

6.1. The Municipality's asset management system recognises that the life-cycle of any asset consists of four stages, namely:

6.1.1. Planning during which stage the need for a particular asset is identified or recognised, the acquisition of the asset is budgeted for and the design of the particular asset;

6.1.2. Acquisition at which time an asset is purchased, leased, constructed or acquired and the installation an commissioning of the asset concerned;

6.1.3. Operation and maintenance during which period the asset receives whatever is necessary to allow it to operate efficiently in the delivery of services; and

5.6.12.6.1.4. Disposal at which time the asset may be sold transferred, demolished or otherwise disposed of when it is no longer required or it has reached the end of its useful life.

6.7. FINANCIAL MANAGEMENT

6.1.7.1. Pre-Acquisition Planning:

Before a capital project is included in the budget for approval, the Director must demonstrate and the Council must consider;

6.1.1.7.1.1. The projected cost over all the financial years until the project is operational;

6.1.2.7.1.2. The future operational costs and revenue of the project, including tax and tariff implications;

6.1.3.7.1.3. The financial sustainability of the project over its life including revenue generation and subsidisation requirements;

6.1.4.7.1.4. The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;

~~6.1.5.~~7.1.5. The inclusion of this capital project in the integrated development plan and future budgets: and

~~6.1.6.~~7.1.6. Advise on all alternatives considered on capital purchases.

~~6.1.7.~~7.1.7. Total asset life-cycle costs

~~6.2.~~7.2. The Chief Financial Officer is accountable to ensure the Directors receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

~~6.3.~~7.3. Approval to Acquire Property Plant and equipment:

Expenditure can only be incurred on a capital project if:

~~6.3.1.~~7.3.1. The funds have been appropriated in the capital budget,

~~6.3.2.~~7.3.2. The project, including the total cost and funding sources, has been approved by Council,

7.3.3. The Chief Financial Officer confirms that funding is available for that specific project, ~~and~~

~~6.3.3.~~7.3.4. The Supply Chain Management prescripts/procedures have been adhered to, and

~~6.3.4.~~7.3.5. Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

~~6.4.~~7.4. Funding of capital projects:

~~6.4.1.~~7.4.1. Within the municipality's on-going financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

~~6.4.2.~~7.4.2. The acquisition of assets will not be funded over a period longer than the useful life of that asset.

~~6.5.~~7.5. Disposal of assets:

~~6.5.1.~~7.5.1. Subject to Section 14 of the MFMA, the municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the

minimum level of basic municipal services is not compromised as a result of the disposal of the asset.

~~6.5.2.~~7.5.2. The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above in paragraph 6.5.1 or movable assets referred to in paragraph 6.5.8, but only after the Council, in a meeting open to the public:

~~6.5.2.1.~~7.5.2.1. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and

~~6.5.2.2.~~7.5.2.2. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset,

~~6.5.3.~~7.5.3. The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.

~~6.5.4.~~7.5.4. The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive, and cost effective. This policy forms part of the prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.

~~6.5.5.~~7.5.5. The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.

~~6.5.6.~~7.5.6. All assets (high value capital assets and immovable property) should be transferred or disposed of according to the Asset Transfer Regulations, which under certain conditions requires a public participation process to be followed as set out in paragraph 6.6.11 below.

~~6.5.7.~~7.5.7. A high value capital asset is a capital asset whose fair market value exceeds R50 million or 1% of the total value of all the capital assets of the municipality, whichever is the lower (in a single transaction), or otherwise a value determined by the council provided that value is less than the R50 million or 1% threshold. If the combined value of capital assets to be disposed of or transferred during the financial year exceed five percent of the total value of assets as per the audited AFS.

~~6.5.8.~~7.5.8. The disposal of moveable assets up to a carrying amount as specified from time to time by Council in terms of Section 14(4) of the MFMA may be authorised under delegated powers by the

Municipal Manager after taking the above-mentioned conditions into account.

~~6.5.9.~~7.5.9. Every director shall report in writing to the Chief Financial Officer quarterly or at least by 31 October and 30 April of each financial year on all assets controlled or used by the department concerned which such director wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

~~6.5.10.~~7.5.10. Once assets are alienated, the Chief Financial Officer shall adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.

~~6.5.11.~~7.5.11. All gains and losses realized on the alienation of assets shall be accounted for according to section 12 below.

~~6.6.~~7.6. General principles relating to management of immovable property:

~~6.6.1.~~7.6.1. The municipality may acquire, use, alienate, let or permit to be occupied, built upon or cultivated any immovable property owned by the municipality unless it is precluded from so doing by law or the conditions under which such property was acquired by the municipality.

~~6.6.2.~~7.6.2. The municipality may not sell property, let or alienate rights in immovable property which is required for the provision of the minimum level of basic municipal services.

~~6.6.3.~~7.6.3. Sales and alienation of rights in immovable property as well as the letting of immovable property below market value shall be approved by Council. In terms of the relevant delegation, letting of immovable property at market related value shall be approved by the Municipal Manager.

~~6.6.4.~~7.6.4. Before deciding to let or sell immovable property or alienate rights in immovable property, the Council or Municipal Manager (as the case may be) shall consider the fair market value thereof as well as the economic and community value to be received in exchange for such property or right.

~~6.6.5.~~7.6.5. When selling or leasing immovable property, the general rule shall be that a market related value or rental should be charged (except when the public interest or the plight of the poor

demands otherwise and documented proof can be provided to substantiate the aforementioned).

~~6.6.6.~~7.6.6. In the case of immovable property referred to in the Housing Act (107 of 1997) and its amendments, such property shall be sold or leased as provided for in that Act.

~~6.6.7.~~7.6.7. The market value of property or market rental shall be determined by the Director: Development Services or delegated authority (with substantiating proof) where the valuation costs exceeds the anticipated revenue to be derived from the transaction or is not justifiable or through the use of an independent registered and suitably qualified valuer.

~~6.6.8.~~7.6.8. Council may impose any condition of sale in respect of a sale agreement, inclusive but not limited to:

~~6.6.8.1.~~7.6.8.1. Affordable or low cost housing or in respect of social and development projects prohibiting the property to be resold within a fixed period from the date of transfer.

~~6.6.8.2.~~7.6.8.2. Public comment

~~6.6.8.3.~~7.6.8.3. Any condition considered by Council to be good practise and corporate governance.

~~6.6.8.4.~~7.6.8.4. 6.6.8.4 Any condition considered to be beneficial to the council or to protect its rights.

~~6.6.9.~~7.6.9. Immovable property let by the municipality, must be inspected regularly by officials of the municipality to ensure compliance with the terms and conditions of the agreement of lease.

~~6.6.10.~~7.6.10. Non-profit organizations may receive purchase price or rental discounts at the discretion of Council or Management (as the case may be). Applications will be dealt with on the merit of each application. The discounted amount shall be regarded as a social contribution towards such organization. Non-profit organizations must submit proof of registration as well as proof of sufficient funding for the project. Provision must be made for a suitable reversionary clause or cancellation of the lease should the property no longer be used for the specific purpose intended.

~~6.6.11.~~7.6.11. As a rule, all sales or letting of an immovable property shall be subject to public participation and shall be fair, equitable, transparent, competitive and be consistent with this and supply chain management policy. Public competition and participation may be by means of tender, proposal call, qualified tender, auction, advertisement or other appropriate procedure.

Advertisement shall be done as determined by Council or the Municipal Manager (as the case may be), by inter alia an advertisement in Afrikaans and English in a local newspaper, relevant town noticeboard and the Municipal website. Where required, advertisement may also be done in an Afrikaans or English provincial newspaper. The advertisement must contain all the relevant information as to price and terms (in the case of out-of-hand sales), future usage of the property, infrastructure required and identify the parties to the agreement (if relevant) and type of sale (i.e. auction or tender) and must be open for comment for a period of 30 days. The municipality shall consider and rule on any objections received, giving written reasons for its decision.

~~6.6.12.~~7.6.12. The assessment of tenders, qualified tenders or assessment calls will be done in line with the Supply Chain Management regulations.

~~6.6.13.~~7.6.13. Auctions will be done in public through a suitable qualified Auctioneer, where a property must be sold to the highest bidder, subject however to such terms and conditions Council may impose as to reserve price and terms and conditions of sale.

~~6.6.14.~~7.6.14. Where immovable property is made available by Council for a specific type of development project, the municipality may consider an out-of-hand sale or call for development proposals, which may include a monetary offer. In such a case, the price offered for the immovable property by the developer may form part of the total package, provided that the process in terms of paragraph 6.6.11 have been followed.

~~6.6.15.~~7.6.15. Where the municipality considers it appropriate it may consider unsolicited bids for the lease or sale of property subject to compliance with the relevant legislation, this policy and Regulation 37 of the SCM Policy. Environmental or heritage benefits may also be taken into consideration by the municipality when deciding whether or not to consider unsolicited bids

~~6.6.16.~~7.6.16. Where the immovable property to be sold or leased cannot be viably used on its own but only as part of an adjacent property because of size, location, access, zoning or other good reason, Council may sell or lease the property directly to the owner of the adjacent property, subject to the process prescribed by paragraph 6.6.11 hereof.

~~6.6.17.~~7.6.17. The municipality may sell or lease property directly to another municipality or to a municipal entity or to another organ of state in terms of applicable legislation.

~~6.6.18.~~7.6.18. The municipality may enter into a direct lease of a temporary nature of no longer than a year without a renewal

option where it is in the public interest to do so and condoned by Council.

~~6.6.19.~~7.6.19. Sports facilities may be leased directly to formally constitute non-professional, non-profit-making sporting bodies according to the tariffs determined by the municipality from time to time and in line with this policy, the tariff policy and sport facility by-law.

~~6.6.20.~~7.6.20. The out-of-hand lease of land for outdoor seating adjoining to restaurant owners is permitted.

~~6.6.21.~~7.6.21. The principles which apply to the sale of immovable property also apply to the granting of other real rights such as servitudes.

~~6.6.22.~~7.6.22. Existing leases may be renewed without recourse to public competition provided the lessee has consistently complied with the lease conditions and the rental is reassessed to a market–related level where applicable. The municipality may impose additional conditions for the renewal period in its sole discretion. Unless the initial lease contained a renewal right, the proposed renewal shall be advertised for comment as set out in paragraph 6.6.11 above. Contracts will be renewed once-off in this manner. If objections are received after placement of an advertisement it must be referred to the Executive Mayoral Committee to deal with it. The delegation will be given to the Director: Development Services to approve such applications.

~~6.6.23.~~7.6.23. The municipality may impose any terms and conditions of sale, title conditions, title restrictions or servitudes in its sale transactions, and any lease conditions in its lease conditions in its lease transactions, at the sole discretion off the municipality in its own interests and for its own benefit and that of the community.

~~6.6.24.~~7.6.24. Where the municipality is the seller, the grantor of real rights or the lessor, it shall ensure that all sale terms and conditions, title conditions, title restrictions or servitudes and all lease terms and conditions are complied with. The municipality shall take appropriate legal action if necessary to enforce these terms and conditions including in the case of leases eviction proceedings as a last resort.

~~6.7.~~7.7. Loss, theft, destruction or impairment of assets

7.7.1. Every director shall ensure that any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer, ~~to the internal auditor,~~ to the chairman of

the Insurance Claims Evaluation Committee and – in cases of suspected theft or malicious damage – also to the South African Police Services.

6.7.1.7.7.2. Directors and Senior Managers shall further ensure that all the required insurance claim documentation and information is promptly submitted to the Chief Financial Officer in terms of the prescribed claims procedures.

7.8. INTERNAL CONTROLS

7.1.8.1. Asset Register

7.1.1.8.1.1. Establishment and management of the Asset Register:

7.1.1.1.8.1.1.1. The Chief Financial Officer will ensure the establishment and item of asset that satisfies the criterion for recognition.

7.1.1.2.8.1.1.2. The Chief Financial Officer is responsible for establishing and maintaining any additional registers or records to demonstrate to Directors the physical management of assets under their control.

7.1.2.8.1.2. Contents and maintenance of the Asset Register

7.1.2.1.8.1.2.1. The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

7.1.3.8.1.3. The details within the asset register may include but is not limited to:

7.1.3.1.8.1.3.1. Description of the asset

7.1.3.2.8.1.3.2. Asset identification number

7.1.3.3.8.1.3.3. Asset classification

7.1.3.4.8.1.3.4. mSCOA ~~GFS Vote / Sub-vote~~ classification

7.1.3.5.8.1.3.5. Source document and dates

~~7.1.3.6.~~8.1.3.6. Purchase price or historical cost

~~7.1.3.7.~~8.1.3.7. The useful life of the asset

~~7.1.3.8.~~8.1.3.8. The residual value of the asset

~~7.1.3.9.~~8.1.3.9. Depreciation charged

~~7.1.3.10.~~8.1.3.10. The gross carrying amount

~~7.1.3.11.~~8.1.3.11. The accumulated depreciation

~~7.1.3.12.~~8.1.3.12. Date of acquisition

~~7.1.3.13.~~8.1.3.13. Date and value of disposal (if relevant)

~~7.1.3.14. Date on which the asset is retired from use, if not disposed of~~

~~7.1.3.15. Increases or decreases resulting from revaluations (if relevant)~~

~~7.1.3.16.~~8.1.3.14. Location of the asset

~~7.1.3.17.~~8.1.3.15. The Responsible Official managing the asset

~~7.1.3.18.~~8.1.3.16. The department that controls or uses the asset

~~7.1.3.19.~~8.1.3.17. Whether the asset has been used to secure any debt, and – if so - the nature and duration of such security arrangements

8.1.3.18. The title deed number, in the case of immovable

~~7.1.3.20.~~8.1.3.19. property

~~7.1.4.~~8.1.4. All directors under whose control any asset falls shall promptly provide and advise the Chief Financial Officer in writing with any information required to compile the asset register, and ~~shall promptly advise the Chief Financial Officer in writing~~ of any material change which may occur in respect of such information.

~~7.1.5.~~8.1.5. An asset shall be recorded in the assets register as soon as it is delivered or brought into use. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.

~~7.1.6.~~8.1.6. An asset shall remain in the asset register for as long as it is in physical existence. The fact that an asset has been fully depreciated shall not in itself be a reason for deleting it from the register.

~~7.1.7.~~8.1.7. Internal Controls over the Asset Register:

~~7.1.7.1.~~8.1.7.1. Controls relating to the asset register should be sufficient to provide Directors with an accurate, reliable and up-to-date account of assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant statutes.

~~7.1.7.2.~~8.1.7.2. These controls will include (a) details of the physical management (b) the recording of all acquisitions, assignments, transfers, losses and disposals of assets (c) regular verification and (d) systems audits to confirm the accuracy of the records.

~~7.1.7.3.~~8.1.7.3. Identification of assets.

~~7.1.8.~~8.1.8. The Chief Financial Officer will establish a system to ensure that each moveable asset bears a unique identification number/ barcode, where possible and practical, which shall be recorded in the asset register.

~~7.1.9.~~8.1.9. Every director shall ensure that the asset identification system approved for use by the municipality is scrupulously applied to all assets controlled or used by the department in question.

~~7.2.~~8.2. Physical Controls and Management:

~~7.2.1.~~8.2.1. Responsibilities of the Chief Financial Officer:

~~7.2.1.1.~~8.2.1.1. The Chief Financial Officer will ensure that an annual verification of assets is undertaken as part of the annual reporting process.

~~7.2.2.~~8.2.2. The date of acquisition:

~~7.2.2.1.~~8.2.2.1. The date of acquisition of assets is deemed to be the time when legal title and control passes to the municipality.

8.2.2.2. This may vary for different categories of assets but will usually be the point of time when an asset is brought into use or when final payment for that item is approved.

8.2.2.3. A Director must advise the Chief Financial Officer, in writing, of capital work-in-progress at the end of the financial year

~~7.2.2.2.~~8.2.2.4. A Director must advise the Chief Financial Officer, promptly in writing whenever capital work-in-progress is completed, for inclusion in the Asset Register.

~~7.2.3.~~8.2.3. Transfers between Directorates

~~7.2.3.1.~~8.2.3.1. Permanent transfers to another Director:

~~7.2.3.1.1.~~8.2.3.1.1. A Director may transfer an asset under his control provided that another Director agrees in writing to accept responsibility for that asset. Copies of such approvals must be submitted to the Chief Financial Officer.

~~7.2.3.1.2.~~8.2.3.1.2. The Chief Financial Officer must appropriately amend the Asset register by recording all approved transfers.

~~7.2.3.1.3.~~8.2.3.1.3. The Director to whom the asset is transferred must assume accountability for the transferred asset from a date specified in the written communication referred to above.

~~7.2.3.2.~~8.2.3.2. A Director must ensure that assets are appropriately safeguarded for loss, damage or misuse wherever they are located. Safeguarding includes ensuring reasonable physical restrictions.

~~7.2.4.~~8.2.4. Relocation or Reassignment of Assets:

~~7.2.4.1.~~8.2.4.1. A Director must advise the Chief Financial Officer, in writing, whenever an asset is relocated or reassigned from the location (or base) or cost centre as recorded in the Asset Register.

~~7.2.4.2.~~8.2.4.2. In the case of assets such as vehicles being utilized in the normal course of operations away from its base such reporting is not necessary.

~~7.2.5.~~8.2.5. Verification of Assets:

~~7.2.5.1.~~8.2.5.1. Every director shall at least annually undertake a complete physical verification of all assets under his / her control.

~~7.2.5.2.~~8.2.5.2. The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.

~~7.2.5.3.~~8.2.5.3. The annual verification should be conducted as close to 30th June as possible with the verification report reaching the Chief Financial Officer by not later than 31st August~~30th June~~.

~~7.2.6.~~8.2.6. Insurance of assets

~~7.2.6.1.~~8.2.6.1. The Chief Financial Officer shall ensure that all movable assets meeting the insurance criteria are insured against loss:

~~7.2.6.1.1.~~8.2.6.1.1. Movable assets should at least be covered against fire and theft and

~~7.2.6.1.2.~~8.2.6.1.2. Municipal buildings and infrastructure assets identified by individual directors should at least be covered against fire and allied perils.

8.2.6.2. The Chief Financial Officer shall recommend to the Council of the municipality, the insured value to be applied to each type of asset: either the carrying value or the replacement value of the asset concerned. Such recommendation shall take due cognizance of the budgetary resources of the municipality.

8.2.7. Recovery of loss

8.2.7.1. An Insurance Claims Evaluation Committee, appointed by the Accounting Officer, must be established to investigate all losses and to consider the settlement of all insurance claims falling within the relevant excess limits.

8.2.7.2. The Insurance Claims Evaluation Committee must comprise of a representative from Legal Services, Human Resources (Labour Relations), Finance (Asset Management), Director Operational Services and Fleet Manager.

~~7.2.6.2.~~8.2.7.3. Where applicable, the matter must be referred to the Human Resources department in order to institute

disciplinary action in order to recover any possible loss in incidents where negligence or misconduct may be suspected.

~~8.~~9. MANAGEMENT AND OPERATION OF ASSETS

~~8.1.~~9.1. Accountability to manage assets

9.1.1. The Chief Financial Officer has identified asset items which will not be capitalised. There assets are qualitative and quantitatively immaterial and the costs to maintain these assets were considered and found to exceed the economic benefit if considered over the life cycle of the assets. Refer to annexure B.

9.1.2. Each Director is accountable to ensure that municipal resources assigned to him / her are utilized effectively, efficiently, economically and transparently.

~~8.1.1.~~9.1.3. Directors need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost.

~~8.1.2.~~9.1.4. This will entail;

~~8.1.2.1.~~9.1.4.1. Developing appropriate asset management systems, providing, inter alia, for

~~8.1.2.1.1.~~9.1.4.1.1. Recording of usage of the asset such as logbooks,

~~8.1.2.1.2.~~9.1.4.1.2. Recording of preventative and maintenance programmes

~~8.1.2.1.3.~~9.1.4.1.3. Annual assessment of usefulness, condition of asset and remaining useful life,

~~8.1.2.1.4.~~9.1.4.1.4. Planning for replacement of asset.

~~8.1.3.~~9.1.5. Directors need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost.

~~8.2.~~9.2. Strategic asset management plan.

~~8.2.1.~~9.2.1. The Director will need to develop such a plan that covers:

~~8.2.1.1.~~9.2.1.1. Alignment with the Integrated Development Plan

~~8.2.1.2.~~9.2.1.2. Operational guidelines,

8.2.1.3.9.2.1.3. Performance monitoring including benchmarking indicators and measurement,

8.2.1.4.9.2.1.4. Maintenance programmes,

8.2.1.5.9.2.1.5. Renewal, refurbishment and replacements plans,

8.2.1.6.9.2.1.6. Disposal and Rehabilitation plans,

8.2.1.7.9.2.1.7. Operational, financial and capital support requirements, and

8.2.1.8.9.2.1.8. Risk mitigation plans including insurance strategies

8.2.2.9.2.2. The operational budgets are the short to medium term plan for implementing strategic asset management plans.

8.3.9.3. Reporting on Impeding Issues:

8.5.1 Each Director shall report to the Municipal Manager & Chief Financial Officer on issues that will significantly impede the assets capacity to provide the required level of service or economic benefit.

9.10. CLASSIFICATION, AGGREGATIONS & COMPONENTS

9.1.10.1. Classification of assets:

9.1.1.10.1.1. Any asset recognized as an asset under this policy will be classified according to nationally recognized categories.

9.1.2.10.1.2. These categories have been specified by the Accounting Standards Board.

9.1.3.10.1.3. All assets should be classified under the following headings in the Asset Register:

9.1.3.1.10.1.3.1. Property, plant and equipment

9.1.3.1.1.10.1.3.1.1.Land and Buildings, including community asset land and buildings (not held as investment assets)

9.1.3.1.2.10.1.3.1.2.Infrastructure Assets (assets which are part of a network of similar assets)

9.1.3.1.3.10.1.3.1.3.Community Assets (resources contributing to the general well-being of the community)

9.1.3.1.4.10.1.3.1.4. Heritage Assets (culturally significant resources)

9.1.3.1.5.10.1.3.1.5. Other Assets (ordinary operational resources)

9.1.3.2.10.1.3.2. Investment property

9.1.3.2.1.10.1.3.2.1. Investment Assets (resources held for capital or operational gain)

9.1.3.3.10.1.3.3. Intangible assets

9.1.3.3.1.10.1.3.3.1. Intangible Assets (resources without physical substance)

9.1.4.10.1.4. The Chief Financial Officer in consultation with the relevant Director may agree to subdivide these classifications further. This decision will be noted as an amendment to the classification schedule of the municipality and must be endorsed, in writing, by the Municipal Manager, the Chief Financial Officer and the relevant Director.

9.2.10.2. Optional Treatment for Major Components

9.2.1.10.2.1. A Director must, with agreement of the Chief Financial Officer, treat major components of an item of property plant or equipment as a separate asset for the purposes of this policy.

9.2.2.10.2.2. These major components may be defined by its physical parameters (e.g. a reservoir or roof) or its financial parameters.

9.2.3.10.2.3. In agreeing to these treatments the Director must be satisfied that these components:

9.2.3.1.10.2.3.1. Have significantly a different useful life or usage pattern to the main asset,

9.2.3.2.10.2.3.2. Align with the asset management plans,

9.2.3.3.10.2.3.3. Justify the costs of separate identification,

9.2.3.4.10.2.3.4. Have probable future economic benefits or potential service delivery associated with the asset which will flow to the municipality,

9.2.3.5.10.2.3.5. Is such that the cost of the asset to the municipality can be measured reliably,

9.2.3.6.10.2.3.6. Is such that the municipality has control over the asset, and

9.2.3.7.10.2.3.7. Is such that the asset is expected to be used during more than one financial year.

9.2.4.10.2.4. All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review (i.e. once or twice during the year).

9.2.5.10.2.5. Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it was a separate asset.

10.11. ACCOUNTING FOR ASSETS

10.1.11.1. Recognition of assets.

10.1.1.11.1.1. An item of property, plant or equipment will be recognized as an asset when:

10.1.1.1.11.1.1.1. It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,

10.1.1.2.11.1.1.2. The cost of the asset to the municipality can be measured reliably,

10.1.1.3.11.1.1.3. The municipality has control over the asset, and

10.1.1.4.11.1.1.4. The asset is expected to be used during more than one financial year.

10.2.11.2. Initial measurement

10.2.1.11.2.1. An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its "cost of acquisition".

10.2.2.11.2.2. The "cost of acquisition" usually includes the following:

10.2.2.1.11.2.2.1. Purchase costs (less any discounts given)

10.2.2.2.11.2.2.2. Delivery costs

10.2.2.3.11.2.2.3. Installation costs

~~10.2.2.4.~~11.2.2.4. Professional fees for architects and engineers

~~10.2.2.5.~~11.2.2.5. Import duties

~~10.2.2.6.~~11.2.2.6. Non-refundable taxes

~~10.2.2.7.~~11.2.2.7. Site development costs

~~10.2.2.8.~~11.2.2.8. Contractor fees

~~10.2.2.9.~~11.2.2.9. Financing costs including capitalized interest for an initial reasonable period and costs of security arrangements for debt.

~~10.2.2.10.~~11.2.2.10. Discount and fees in connection with financing

~~10.2.2.11.~~11.2.2.11. Fees for legal, financial, advisory, trustee, credit rating, other services and other costs directly connected to the financing

~~10.3.~~11.3. Donations or exchanges

~~10.3.1.~~11.3.1. Where an item of property plant or equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its "fair value" as at the date of acquisition and included in the asset register.

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~~10.4.~~11.4. Carrying amount of assets

~~10.4.1.~~11.4.1. Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments, as adjusted for subsequent revaluations or write downs.

~~10.4.2.~~11.4.2. The only exceptions to this rule shall be re-valued assets (Land and Buildings and Investment Assets) as well as heritage assets in respect of which no value is recorded in the asset register (see part 11.19 below)

~~10.5.~~11.5. Depreciation

~~10.5.1.~~11.5.1. All assets, except land, assets under construction and heritage assets, shall be depreciated.

~~10.5.2.~~11.5.2. The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.

~~10.5.3.~~11.5.3. The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and, therefore, is immaterial in the calculation of the depreciable amount.

~~10.5.4.~~11.5.4. When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition. The estimate is based on the residual value prevailing at the date of the estimate for similar property assets that have reached the end of their useful lives and have operated under conditions similar to those under which the property asset will be used.

~~10.5.5.~~11.5.5. The depreciation charge for each period will be recognized as an expense against the budget of the relevant Director.

~~10.5.6.~~11.5.6. The depreciation method used shall reflect the pattern in which the assets future economic benefits or service potential are expected to erode the value of the asset.

~~10.5.7.~~11.5.7. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include:

~~10.5.7.1.~~11.5.7.1. the straight-line method,

~~10.5.7.2.~~11.5.7.2. the diminishing balance method and

~~10.5.7.3.~~11.5.7.3. the units of production method.

~~10.5.8.~~11.5.8. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change.

~~10.5.9.~~11.5.9. The diminishing balance method results in a decreasing charge over the useful life.

~~10.5.10.~~11.5.10. The units of production method results in a charge based on the expected use or output.

~~10.5.11.~~11.5.11. The method of depreciation is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

~~10.5.12.~~11.5.12. The preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.

~~10.5.13.~~11.5.13. Depreciation shall initially be calculated from the day the asset is available for use.

~~10.5.14.~~11.5.14. Each director, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

~~10.6.~~11.6. Initial determination of useful life

~~10.6.1.~~11.6.1. Each Director needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:

~~10.6.1.1.~~11.6.1.1. The program that will optimize the expected long term costs of owning that asset,

~~10.6.1.2.~~11.6.1.2. Economic obsolescence because it is too expensive to maintain,

~~10.6.1.3.~~11.6.1.3. Functional obsolescence because it no longer meets the municipality's needs,

~~10.6.1.4.~~11.6.1.4. Technological obsolescence,

~~10.6.1.5.~~11.6.1.5. Social obsolescence due to changing demographics, and

~~10.6.1.6.~~11.6.1.6. Legal obsolescence due to statutory constraints

~~10.6.2.~~11.6.2. A schedule of useful lives is included in Annexure A. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.

~~10.6.3.~~11.6.3. Spares purchased specifically for a particular asset or class of assets at the time of the initial acquisition and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

~~10.7.~~11.7. Review of useful life and residual value

~~10.7.1.~~11.7.1. Only the Chief Financial Officer in consultation with the responsible Director may amend the useful operating life or the residual value assigned to any asset.

~~10.7.2.~~11.7.2. The Chief Financial Officer shall amend the useful operating life or the residual value assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

~~10.7.3.~~11.7.3. If the value of an asset item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be written off from the date in which such diminution in value occurs.

~~10.7.4.~~11.7.4. Similarly, if an asset has been lost, stolen or damaged beyond repair, it shall be written off the asset register.

~~10.7.5.~~11.7.5. The useful life and the residual value of an item of property, plant or equipment must be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

~~10.8.~~11.8. Review of depreciation method.

~~10.8.1.~~11.8.1. The depreciation method applicable to a class of asset must be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method must be changed to reflect the changed pattern.

~~10.8.2.~~11.8.2. When such a change in depreciation method is necessary the change must be reflected as a change in the accounting estimate and the depreciation charge for the current and future periods should be adjusted.

~~10.9.~~11.9. Subsequent expenditure on assets

~~10.9.1.~~11.9.1. Subsequent expenditure relating to an item of property, plant or equipment that has already been capitalised must be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency

of the asset or reduce the cost of operating the asset and resulting in financial or service delivery benefits.

~~10.9.2.~~11.9.2. All other expenditure must be recognized as an expense in the period in which it occurred.

~~10.9.3.~~11.9.3. Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:

~~10.9.4.~~11.9.4. Increase the life of that asset beyond that stated in the asset register, or

~~10.9.5.~~11.9.5. Increase the quality of service provided by that asset beyond the existing level of service, or

~~10.9.6.~~11.9.6. Increase the quantity of services that asset can provide, or

~~10.9.7.~~11.9.7. Reduce the future assessed costs of maintaining that asset.

~~10.9.8.~~11.9.8. Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

~~10.10.~~11.10. Impairment losses

~~10.10.1.~~11.10.1. The accounting treatment relating to impairment losses is outlined as follows (GRAP 21 & 26~~17~~)

~~10.10.1.1.~~11.10.1.1. The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

~~10.10.1.2.~~11.10.1.2. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve.

~~10.10.1.3.~~11.10.1.3. The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess

the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

~~10.10.2.~~11.10.2. The following may be indicators that an asset is impaired:

~~10.10.2.1.~~11.10.2.1. The asset has been damaged.

~~10.10.2.2.~~11.10.2.2. The asset has become technologically obsolete.

~~10.10.2.3.~~11.10.2.3. The asset remains idle for a considerable period either prior to it being put into use or during its useful life.

~~10.10.2.4.~~11.10.2.4. Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

~~10.10.2.5.~~11.10.2.5. The following steps will have to be performed regularly during the year to account for impairment losses:

~~10.10.2.6.~~11.10.2.6. Departments will identify and inform the Chief Financial Officer of Asset Control of assets that:

~~10.10.2.6.1.~~11.10.2.6.1. Are in a state of damage at year end.

~~10.10.2.6.2.~~11.10.2.6.2. Are technologically obsolete at year end.

~~10.10.2.6.3.~~11.10.2.6.3. Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.

~~10.10.2.6.4.~~11.10.2.6.4. Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.

~~10.10.2.7.~~11.10.2.7. The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.

~~10.10.2.8.~~11.10.2.8. The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.

~~10.11.~~11.11. Subsequent increase in recoverable amount

~~10.11.1.~~11.11.1. A subsequent increase in the recoverable amount of an asset, previously impaired due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

~~10.11.2.~~11.11.2. The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

~~10.12.~~11.12. Accounting treatment on Disposal

~~10.12.1.~~11.12.1. An asset should be eliminated from the financial records on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its existence.

~~10.12.2.~~11.12.2. Gains or losses arising from the retirement or disposal of an asset should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the financial records.

~~10.12.3.~~11.12.3. Gains realized on the alienation of assets shall only be appropriated annually to the municipality's Capital Replacement Reserve in terms of an approved budget (except in the cases below), and all losses on the alienation of assets shall remain as expenses on the statement of financial performance of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the assets of any department or vote, only the net gain (if any) on the alienation of such assets shall be appropriated.

~~10.13.~~11.13. Reinstatement, maintenance and other expenses

~~10.13.1.~~11.13.1. Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

~~10.13.2.~~11.13.2. Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

~~10.13.3.~~11.13.3. Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, assembly and communication costs.

~~10.13.4.~~11.13.4. The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:-

CAPITAL EXPENDITURE	**MAINTENANCE**
• Acquiring a new asset • Replacing an existing asset • Enhancing an existing asset so that its use is expanded or increased • Further developing an existing assets so that its original useful life is considerably extended	• Restoring an asset so that it can continue to be used for its intended purposes • Maintaining an asset so that it can be used for the period for which it was initially intended

~~10.14.~~11.14. 10.18 Assets held under leases:

~~10.14.1.~~11.14.1. Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee.

~~10.14.2.~~11.14.2. Assets held under finance leases are capitalized by the municipality and reflected as such in the Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement, or a price calculated after taking into account reasonable interest on the payments over the period of the lease. The asset is then depreciated over its expected useful life.

~~10.14.3.~~11.14.3. Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

~~10.14.4.~~11.14.4. Assets held under operating leases where the municipality is the lessee are not accounted for in the asset register.

~~10.15.~~11.15. Investment property

~~10.15.1.~~11.15.1. Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's financial statements.

~~10.15.2.~~11.15.2. Investment assets comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

~~10.15.3.~~11.15.3. Investment assets shall be recorded in a separate section of the assets register in the same manner as other assets.

~~10.15.4.~~11.15.4. If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

~~10.15.5.~~11.15.5. Investment assets shall not be depreciated, but shall be valued annually at financial statements date to determine their fair market value.

~~10.15.6.~~11.15.6. Investment assets shall be recorded in the financial statements at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records.

~~10.15.7.~~11.15.7. An expert valuer shall be engaged by the municipality to undertake such valuations unless such expertise is available in-house.

~~10.16.~~11.16. Assets treated as inventory:

~~10.16.1.~~11.16.1. Any land or buildings owned or acquired by the municipality with the intention of reselling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of reselling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's financial statements.

~~10.16.2.~~11.16.2. Such inventories shall, however, be recorded in a separate register.

~~10.17.~~11.17. Recognition of heritage assets in the asset register:

~~10.17.1.~~11.17.1. If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.

~~10.17.2.~~11.17.2. For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

~~10.18.~~11.18. Other write-offs of assets:

~~10.18.1.~~11.18.1. An asset item, even though fully depreciated, shall be written off only on the recommendation of the director controlling or using the asset concerned, provided it has been submitted to the Chief Financial Officer for approval.

~~10.18.2.~~11.18.2. Every director shall report to the Chief Financial Officer quarterly or at least on 31 October and 30 April of each financial year on any asset which such director wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports, and shall submit a recommendation to the Municipal Manager / Council based on the delegated function of the Municipal Manager as referred to in section 6.4 above on the assets to be written off.

~~10.18.3.~~11.18.3. The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, destruction or material impairment of the item/s in question.

~~10.18.4.~~11.18.4. In every instance where a not fully depreciated asset is written off, the Chief Financial Officer shall immediately debit to such department or vote the full carrying value of the asset concerned.

~~10.19.~~11.19. Agricultural assets:

~~10.19.1.~~11.19.1. Accounting for such assets shall take place in accordance with the requirements of GRAP 101.

~~10.19.2.~~11.19.2. The Chief Financial Officer, in consultation with the head(s) of department concerned, shall ensure that all such assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated cost of disposal.

~~10.19.3.~~11.19.3. Such valuation shall be undertaken by a valuer specialising in the valuation of the type of agricultural assets concerned.

~~10.19.4.~~11.19.4. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

~~10.19.5.~~11.19.5. If any such asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the director concerned in exactly the same manner as though the asset were an ordinary asset.

~~10.19.6.~~11.19.6. Records reflecting the details of agricultural assets shall be kept in a separate section of the asset register or in a separate accounting record and such details shall reflect the information which the Chief Financial Officer, in consultation with the director concerned, deems necessary for accounting and control purposes.

~~10.19.7.~~11.19.7. The Chief Financial Officer shall annually insure the municipality's agricultural assets, in consultation with the director concerned.

~~11.~~12. MAINTENANCE OF ASSETS

~~11.1.~~12.1. Maintenance plans:

~~11.1.1.~~12.1.1. Every director shall ensure that a maintenance plan in respect of infrastructure assets with a value of R100 000 or more is prepared as part of the annual budget preparation process.

~~11.1.2.~~12.1.2. The relevant director shall request sufficient appropriations in the operating budget to achieve the applicable maintenance plans.

~~11.1.3.~~12.1.3. The director controlling or using the infrastructure asset in question, shall annually report to Council, not later than 31 May, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

~~11.2.~~12.2. General maintenance of Assets:

~~11.2.1.~~12.2.1. Every director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their maximum useful operating lives

~~12.~~13. FINANCIAL DISCLOSURE

~~12.1.~~13.1. The financial statements must disclose, in respect of each class of asset classified under the categories of infrastructure, community, heritage, investment properties, inventory, biological and other assets the compulsory disclosures as required by the relevant standards of GRAP

Annexure A: **INDICATIVE USEFUL LIFE OF ASSETS**

	Years		*Years*
Infrastructure		**Other**	
Roads and Storm water	5 - 150	Buildings	20 - 100
Refuse	20 - 50	Specialist vehicles	10 - 35
Electricity	10 - 100	Other vehicles	5 - 30
Water	10 - 200	Office equipment	3 - 15
Sewerage	10 - 200	Furniture and fittings	5 - 20
Housing	20 - 100	Watercraft	15 - 30
		Bins and containers	5 - 15
Community		Specialised plant and	
Buildings	20 - 100	Equipment	5 - 35
Recreational Facilities	20 - 30	Other plant and	
Security	5 - 15	Equipment	2 - 25
Halls	20 - 30	Landfill sites	20 - 100
Libraries	20 - 30	Quarries	20 - 100
Parks and gardens	15 - 20	Emergency equipment	5 - 25
Other assets	15 - 30	Computer equipment	3 - 15
Finance lease assets			
Office equipment	3 – 15		
Other assets	5 – 15		

Annexure B: ITEMS CONSUMED WITHIN 12 MONTHS

Description	Description
Crockery	Kettle
Spades	Stapler
Garden Fork	Punch
Rake	Letter Trays
Traffic Cones	Boxes – money, tender, CV's etc~~Money Box~~
Broom	Keyboard
Multi plug	Mouse
Small & Loose Tools ○ Sockets ○ Spanners ○ Pliers Hammer	Computer Speakers
Desk & Pocket Calculators	"Wheely Bins"
Panga	Numbering Stamp
Hoe	Stamps
Garden Hose	Fan
Trowels	Dustbin
Plaster Board	Small Carpets
Measuring Tape	Carpet Protector
Leads	Flower Pots
Building Line	Holder Pens & Notes
Banners	Memory Stick (Flashdisk)
Batteries	Buddy drawers
CD Racks	Chairs (Plastic stackable)
Chargers except industrial	Clipboards
Measuring wheels, tapes	First aid and medic kits
Toolbox incl tools	Paper trays
Work station divider	Jump starters

Annexure C: Items considered furniture and fitting and treated as maintenance of existing buildings

The following list of items is approved to only be purchased via the maintenance line items as the items are mounted to the building:

Description	Description
Air conditioner	Bookcase bolted to floor of wall
Clocking devices	Cupboard – built in
Extractor fan	Flagpole
Key Cabinet	Safe
Alarm systems	Curtains
Blinds	Carpets
Boilers	